

First-time buyers can get a mortgage with 3% down

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WASHINGTON — Some first-time home buyers will get a break on their down payments through programs announced Monday by mortgage giants Fannie Mae and Freddie Mac as the firms try to jump-start the housing market by making it easier for more borrowers to qualify for a mortgage.

Fannie and Freddie will soon allow for mortgages with a down payment as low as 3% — instead of the 5% currently required — as long as one of the borrowers on the mortgage has not owned a primary residence within the past three years. The changes take effect Dec. 13 at Fannie, and March 23 at Freddie.

In a call with reporters Monday, Fannie and Freddie officials said it's too early to tell how many borrowers will take advantage of the programs. But they also said they expect many lenders to offer them. The Federal Housing Finance Agency, which oversees both companies, said these low down payment loans probably will be a small share of both

firms' businesses.

Fannie and Freddie do not make loans. They buy them from lenders, package them into securities and sell them to investors. For a fee, they guarantee the mortgages and pay investors if the loans default.

The down payment changes mark the latest effort by government regulators to help first-time buyers who have been shut out of the housing market in recent years. Since the market unraveled, lenders have been turning away potential buyers by demanding unusually high credit scores and imposing tough standards on government-backed loans — including those of Fannie and Freddie.

The industry, which was forced by regulators to buy back billions of dollars in loans after the housing bust, has said that it's trying to insulate itself from more financial penalties and lawsuits. It repeatedly ignored pleas from the White House and government regulators to ease lending criteria.

Fannie, Freddie and their regulator responded by taking a number of steps to

address lender concerns, and agreed to clarify the circumstances under which lenders are required to buy back loans. Some lenders (most notably Bank of America) have said in the past that these changes are not likely to encourage them to offer low down payment loans. On Monday, Bank of America said that it is reevaluating, now that program details have been released.

Fannie and Freddie say the feedback they're receiving suggests that many lenders they work with will embrace the new 3% down options, and industry experts agree.

"I'm confident that the majority of the lending community is going to take part in these programs," said David Stevens, chief executive of the Mortgage Bankers Association. "They're more confident about the risks they face in extending these loans."

On Monday, company officials emphasized that they will only buy plain-vanilla, fixed-rate mortgages belonging to borrowers who can document their ability to repay a mortgage.